

Office of the Washington State Treasurer

# 2011 Report to the Washington State Legislature on Actions Taken by the Public Deposit Protection Commission

*An update on recent events, responses and issues related to modernizing  
and improving the protection of public deposits in Washington State*



December 2011

## Table of Contents

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Executive Summary: .....	3
Summary of Bank Closures:.....	4
Credit Unions .....	5
Role of the Washington State Treasurer’s Office: .....	6
Insured Deposits and FDIC Issues .....	6
Looking Ahead: .....	6
PDPC Resolutions:.....	6

## Executive Summary:

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Washington law requires the State Treasurer to report annually to the Legislature on actions taken by the Public Deposit Protection Commission (PDPC) and the State Treasurer regarding public deposit protection. The Treasurer's office issued reports in [2009](#) and [2010](#) to provide an accounting of the issues and actions taken by the PDPC and the State Treasurer to protect public deposits. This 2011 report provides an update on events and actions taken since December 1, 2010 when the last report was published.

The financial and economic downturn contributed to the closure of four Washington banks in 2009, and 12 Washington banks in 2010. In 2011, three more institutions that serve government depositors were closed by regulators as community banks throughout the state continue to work in what remains a challenging operating environment. Though a widening consensus among economists indicates that it could take another four to six years for the economy to deleverage and the housing and commercial real estate markets to heal, the high rate of bank closures seen in 2010 slowed considerably this year.

In 2011, the FDIC closed three public depository banks that were holding roughly \$27,576,697 million of public deposits – but as in the past, no public funds were at risk because all public deposits were either fully insured or collateralized. In addition to these three closures, Charter Private Bank, Cascade Bank, & Bank of the Northwest merged with other banks.

Safeguards put in place by the Legislature, the Public Deposit Protection Commission and the State Treasurer continued to protect all public money deposited at all 82 banks that serve state and local government in Washington state. As of June 30, 2009, public deposits that previously could have been lost became either fully insured or fully collateralized at each individual financial institution. With 100 percent collateral standing behind uninsured public deposits, we have substantially reduced risks and liabilities. Moreover, in all three bank closures this year, the FDIC found a purchaser that agreed to take over all the deposits.

In sum, the reforms enacted by the 2009 Legislature, signed into law by the Governor, and implemented by the Public Deposit Protection Commission and State Treasurer remain highly effective at protecting all public deposits in Washington state.

## Summary of Bank Closures:

Since the beginning of the bank crisis in 2009, state and federal regulators have closed 19 banks that served government depositors in Washington state. Risks and liabilities to both depositors and other financial institutions were greatly reduced because of safeguards established immediately following the closure of Bank of Clark County – including a requirement for 100 percent collateral for uninsured public deposits.

In 2011, state and federal regulators closed three Public Depositary Banks in Washington and allowed three others to merge with other banks. (Fig. 1)

2011		
Bank	Date of Closure	Acquiring Institution
Summit Bank	May 20, 2011	Columbia State Bank
First Heritage Bank	May 27, 2011	Columbia State Bank
Bank of Whitman	August 5, 2011	Columbia State Bank
<b>Mergers:</b>		
Bank of the Northwest	July 28, 2011	AmericanWest Bank
Charter Private Bank	May 27, 2011	Boston Private Bank & Trust, MA
Cascade Bank	June 30, 2011	Opus Bank, CA

Figure 1

There were two mergers in 2010 if you want to include them: Golf Savings Bank into Sterling Savings Bank July 31, 2010 and ShoreBank Pacific into One PacificCoastBank, CA August 20, 2010

In contrast, during 2010, regulators closed 12 public depositaries in Washington. (Fig. 2)

2010		
Bank	Date of Closure	Acquiring Institution
Horizon Bank	January 8, 2010	Washington Federal Savings
Evergreen Bank	January 22, 2010	Umpqua Bank, OR
Columbia River Bank	January 22, 2010	Columbia State Bank
American Marine Bank	January 29, 2010	Columbia State Bank
Rainier Pacific Savings Bank	February 26, 2010	Umpqua Bank, OR
City Bank	April 16, 2010	Whidbey Island Bank
Frontier Bank	April 30, 2010	Union Bank, CA
Washington First Intl Bank	June 11, 2010	East West Bank, CA
Cowlitz Bank	July 30, 2010	Heritage Bank
North County Bank	September 24, 2010	Whidbey Island Bank
Shoreline Bank	October 1, 2010	GBC International Bank, CA
Pierce Commercial Bank	November 5, 2010	Heritage Bank

Figure 2

And, regulators closed four banks in 2009: Bank of Clark County, Westsound, Venture and United Commercial Bank. (Fig. 3)

2009		
Bank	Date of Closure	Acquiring Institution
Bank of Clark County	January 16, 2009	Umpqua Bank, OR
Westsound Bank	May 8, 2009	Kitsap Bank, WA
Venture Bank	September 11, 2009	First-Citizens Bank, NC
United Commercial Bank	November 6, 2009	East West Bank, CA

Figure 3

Bank of Clark County's closure caused the first assessment of public depository banks in PDPC history – an event that led to the complete overhaul of PDPC statutes, collateral requirements and rules. In each of the 18 bank closures since January 2009, the acquiring institutions agreed to purchase the bank being closed by regulators in a way that fully protected public deposits. There have been no further assessments on other public depository banks as a result.

Washington's 82 public depositories now hold roughly \$5,411,008,384 billion in public funds that are either fully insured or fully collateralized. The 100 percent secured level for uninsured public funds was attainable in part because of FDIC insurance coverage for qualifying non-interest bearing accounts is fully insured regardless of the amount in the account. The enhanced coverage allows financial institutions to accept large public deposits in accounts that do not require collateral.

The unlimited insurance program was originally scheduled to sunset December 31, 2009 but the State Treasurer marshaled forces from among a broad range of stakeholders nationwide to successfully advocate for successive extensions of this program through December 31, 2012.

However, the PDPC has required banks to reduce their reliance on this unlimited coverage through resolution. As of the end of October 2010, approximately 80 percent of the \$5 billion in public deposits was fully collateralized. The remaining 20 percent was secured by FDIC coverage.

A significant amount of public deposits continue to be federally insured through what is anticipated to be the worst part of this current economic crisis.

Although some public depositories in Washington still face significant challenges the actions of the Legislature, Governor, the Public Deposit Protection Commission, local government finance officers and financial institutions has virtually eliminated the untenable risks that were allowed under the previous statute.

## Credit Unions

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Effective July 1, 2011, the Legislature allowed credit unions to take public deposits. To date, four credit unions (GESA Credit Union, Numerica Credit Union, Puget Sound Cooperative Credit Union, and Spokane Teachers Credit Union) have been approved to accept public deposits.

## **Role of the Washington State Treasurer's Office:**

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The Washington State Treasurer's Office implements the laws, rules and procedures related to the work of the PDPC, established by the Legislature in 1969 to ensure that state and local government funds deposited in state and federally chartered banks are not lost should a bank fail.

In such an event, state law compels both the PDPC and the state's public depositaries to act in a timely manner to restore public funds to the depositors. The law requires that the PDPC levy a pro rata assessment on each of the remaining banks acting as public depositaries. The assessed amounts are sent to depositaries by the State Treasurer.

In the case of an assessment, payments remitted to the State Treasurer's Office are apportioned among the public entities to cover remaining deposits that were not insured or covered by the assets of the Bank.

## **Insured Deposits and FDIC Issues**

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On August 27, 2009, the Federal Deposit Insurance Corporation's Board of Directors voted unanimously to extend the Transaction Account Guarantee Program until June 30, 2010. Then again, on April 13, 2010, the FDIC adopted the rule extending the Transaction Account Guarantee (TAG) component of the Temporary Liquidity Guarantee Program for an additional six months, through December 31, 2010, with the possibility of extending the program an additional 12 months without further rulemaking. In July 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 which included a provision to insure noninterest-bearing transaction accounts through December 31, 2012. By insuring non-interest-bearing deposits larger than \$250,000, this program has been invaluable in our effort to protect nearly \$5 billion of public deposits.

## **Looking Ahead:**

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The Office of the State Treasurer continues to work with state and federal regulators to keep abreast of changing conditions in public depositaries as the nation faces challenges as the economy regains its footing.

The office continues to work with financial institutions, local governments and local government depositors to understand how to reduce reliance on FDIC insurance and transition to use of collateral.

## **PDPC Resolutions:**

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There were no PDPC Resolutions in 2011.